REVISED PRIORITY SECTOR LENDING NORMS - BOOST TO SOCIAL INFRASTRUCTURE AND RENEWABLE ENERGY

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ABSTRACT

The genesis of Priority Sector Lending can be traced out from July 1968, where in the meeting of National Credit Council it was emphasised that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries. The description of the priority sectors was later formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. From time to time certain modification was done in the extant guidelines to meet the financial inclusion goals of the country. As far as present priority sector lending norms are concerned, an Internal Working Group (IWG) was set up in July 2014, to revisit the existing priority sector lending guidelines. The report of the IWG was placed in the public domain inviting comments. The recommendations of the IWG were examined in the light of the comments / suggestions received from Government of India, banks, and other stakeholders and revised guidelines are being issued. The latest guidelines of priority sector lending will be boost to economy and boon to Banks. Two new categories have been added under priority sector i.e. Social Infrastructure and Renewable Energy. The loan limits for housing loans under priority sector have been revised which will again help the economy. The study will discuss about new norms of priority sector lending.

KEY WORDS: Priority Sector Lending, Social Infrastructure, Renewable Energy, Rural Infrastructure Development Fund.

INTRODUCTION

Priority sector lending is one of the important aspects for any banks in India From the word itself we can make out that PSL is all about giving priorities. Definition of Priority Sector Lending as per Reserve Bank of India website is "Priority sector refers to those sectors of the economy which may not get timely & adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections" [1] As per IIBF "Priority Sector lending includes lending to those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises"[2]

The national priorities have changed over the last few decades, the Indian economy has undergone with huge transformation and it is now highly cohesive with global economy. In coming days India will have to create a global competitive platform for overall economic development. Based on the past experiences and present requirement, necessary changes are made as per the recommendation of IWG which was set up in July 2014 to revisit the existing priority sector lending guidelines.

Revised Priority Sector Lending Targets

To meet the financial inclusion goals of the country and witnessing the importance of national priorities, an Internal Working Group (IWG) was set up in July 2014 to revisit the existing priority sector lending guidelines. The report of the IWG was placed in the public domain inviting comments. The recommendations of the IWG were examined in the light of the comments / suggestions received from Government of India, banks, and other stakeholders and revised guidelines were issued. The key features of latest PSL guidelines by RBI as per the recommendations given by the IWG are as under.[21]

Over all targets: As a frequent need for making the credit available to various priority sectors on the basis of growth and equity the overall PSL target is retained to 40 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher, for all scheduled commercial banks uniformly.

Foreign Banks Targets: Foreign banks with 20 and above branches have been given time up to March 2018 in terms of extant guidelines and submit their revised action plans. The sub-targets for Small and Marginal Farmers and Micro Enterprises would be made applicable post 2018 after a review in 2017. Foreign banks with less than 20 branches, may be given time up to March 2020 to comply with the revised targets as per action plans submitted by them and approved by Reserve Bank.

New Categories: In addition to existing categories, Medium Enterprises, Social Infrastructure and Renewable Energy will also form part of priority sector

Agriculture: The distinction between direct and indirect agriculture has been removed under the category of agriculture. Bank loans to food and agro processing units will form part of Agriculture

Small and Marginal Farmers: A target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, has been prescribed for Small and Marginal Farmers within agriculture, this has to be achieved in a phased manner *i.e.,* 7 percent by March 2016 and 8 percent by March 2017.

Micro Enterprises: A target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, has been prescribed for Micro Enterprises, to be achieved in a phased manner i.e. 7 percent by March 2016 and 7.5 percent by March 2017.

Weaker Section: No change in the target of 10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for Weaker Sections.

Export credit: Export credit upto 32 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, will be eligible as part of priority sector for foreign banks with less than 20 branches. For other banks, the incremental export credit over corresponding date of the preceding year will be reckoned upto 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

Housing and MFI: There has been a revised loan limit for housing loans and MFI loans qualifying under priority sector

Assessment of Non – achievement of PSL: Unlike past annually, the assessment of non-achievement of priority sector will be on quarterly average basis at the end of the respective year from 2016-17 onwards.

Observations on the Inclusion of two new categories and monitoring of PSL business

A) Social Infrastructure

As said earlier, Indian economy has undergone with huge transformation and it is now highly cohesive with global economy. Looking to the importance of overall economic growth, development of social infrastructure has been included in PSL categories. Bank loans up to a limit of 5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centers will be counted under PSL targets. This will boost the rural and semi-urban economy. Basic social infrastructure will accelerate the basic requirement of economic growth. Banks will have the chance to give higher amount loans, rather earlier, focus on only individuals

B) Renewable Energy

Loans for generation and use of renewable energy, such as solar energy and biogas for households are already included under priority sector. In view of the increasing importance of non-conventional and renewable sources of energy and in order to give further push to this segment, bank loans up to a limit of 15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities *viz.* street lighting systems, and remote village electrification. For individual households, the loan limit will be 10 lakh per borrower. This

will again benefit the rural and semi urban economy. The remote village electrification project would be accelerated and further energy based public utilities would help the entire economy. These will also rejuvenate the stalled renewable energy projects.

C) Monitoring of Priority Sector Lending targets

Presently, PSL compliance is monitored on the last day of March each year. The current year's targets for priority sectors and sub-targets will be computed based on Adjusted Net Bank Credit (ANBC) or credit equivalent of Off-Balance Sheet Exposures of preceding March 31st. The outstanding priority sector loans as on March 31st of the current year will be reckoned for achievement of priority sector targets and sub-targets. To ensure continuous flow of credit to priority sector, there will be more frequent monitoring of priority sector lending compliance of banks on 'quarterly' basis instead of annual basis as of now. This will once again ensure that are banks in line with the targets allocated and this will further ensure overall achievement of PSL target by end of financial year

CONCLUSION:

There is no change in the overall PSL target. The target is retained to 40% which is not going to create extra pressure on banks for doing only PSL business and banks can focus for their other business area too. Foreign bank are now similar with domestic banks in terms of PSL targets, foreign bank is given adequate time to fulfill with the target/sub-targets. An alternative avenue for achievement of priority sector targets i.e. Priority Sector Lending Certificates (PSLCs) is also helpful to banks. The present distinction between direct and indirect agriculture is dispensed with. The redefined agriculture sector lending is an attempt to focus on “credit for agriculture” rather than “credit in agriculture”. The new norm is going to give support in developing agriculture infrastructure and ancillary activities and thereby this will support on overall economic development and going to be more integrated with macro-economic. The wastage is going to be reduced due to inadequate storage and supply change infrastructure. Better supply will increase the required flow to small and vulnerable segments further make farming more competitive and profitable. Due attention is given to Small and Marginal farmers which is creating positive impact in the overall economic development. With all modification further banks are also given adequate time frame to achieve the target in phased manner

Including Medium enterprise is one of the biggest achievements for Bankers as well as the medium enterprise owners. Inclusion of medium enterprise would help to generate employment, increasing cross - border trade and encourage the spirit of entrepreneurship. For emerging economy like India, medium enterprise development is going to play a vital role in economic growth. Further the inbuilt focus on micro enterprises is going to accelerate the economy and this will witness the development in leaps and bounds. The changes in export credit under PSL norms is going to boost the export of the country and give support to economic development, further the foreign banks would be benefited as they have good hand holding in export credit. Loan to individuals for educational purposes is same so it is getting same focus. Increase in overall housing loan limits is allowing cheap credit, to make, housing affordable for the Economically Weaker Sections (EWS), Lower Income Group (LIG) and Medium Income Group (MIG) segments of the population. Weaker section is the focus of banks and would be intact. Vulnerable sections of the society are going to get a reasonable share of bank credit. Further the new overdraft scheme under PMJDY is again benefiting the banks for achieving the weaker section target.

Banks credit to MFIs is helping further lending by MFIs and is giving efficient rotation of money in the present economy, especially the small segment of the society who is away from bank credit. Further the banks is also doing large share of PSL business through lending to MFIs. Addition of social infrastructure is a boost to the rural and semi-urban economy. Basic social infrastructure is accelerating the economic growth. Banks will have the chance to give higher amount loans in rural also. Loans for renewable energy is supporting the remote village electrification project and further energy based public utilities would help the entire economy. Frequent monitoring is ensuring that bank is in line with the targets allocated and this will further ensure overall achievement of PSL target by end of financial year.

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